



State of Michigan
Preliminary Unaudited Financial Report

Fiscal Year Ended September 30, 2016

RICK SNYDER, CPA
Governor

JOHN S. ROBERTS
State Budget Director

MICHAEL J. MOODY, CPA
Director
Office of Financial Management



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UNAUDITED

RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

JOHN S. ROBERTS
DIRECTOR

January 27, 2017

The Honorable Rick Snyder, Governor
George W. Romney Building
Lansing, Michigan 48909

Michigan State Senate
State Capitol
Lansing, Michigan 48909

Michigan House of Representatives
State Capitol
Lansing, Michigan 48909

Governor Snyder and Members of the Legislature:

The Office of Financial Management has issued preliminary, unaudited financial statements for the fiscal year ended September 30, 2016, as required by Section 18.1493 of the Michigan Compiled Laws. These unaudited statements are available on the Internet at www.michigan.gov/budget.

Final, audited financial statements will be included in the State of Michigan Comprehensive Annual Financial Report, which is scheduled to be available no later than March 2017.

If you have questions regarding the preliminary, unaudited financial statements, please contact Mike Moody, Director, Office of Financial Management, at 517-373-1010.

Sincerely,



John S. Roberts
State Budget Director

cc: Senate Fiscal Agency
House Fiscal Agency



GOVERNMENTAL FUND FINANCIAL STATEMENTS**Major Funds****GENERAL FUND**

This fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

SCHOOL AID FUND

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools, intermediate school districts, higher education and school employee's retirement systems of the State. School aid payments to school districts are based on a statutory formula. Michigan Compiled Laws Section 388.1611a, effective October 1, 2003, created the school aid stabilization fund as a separate account within the School Aid Fund. Pursuant to this act, any remaining unreserved fund balance in the School Aid Fund at year-end is transferred to this account.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated 60 percent of the collections of sales tax imposed at a rate of 4 percent and all of the collections of sales tax imposed at the additional rate of 2 percent; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

BALANCE SHEET
MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	GENERAL FUND	SCHOOL AID FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 3,893	\$ 33	\$ 3,926
Equity in common cash (Note 5)	1,389,223	-	1,389,223
Taxes, interest, and penalties receivable (Note 6)	2,564,348	2,034,191	4,598,540
Amounts due from other funds	1,420,045	34,017	1,454,062
Amounts due from component units	206	-	206
Amounts due from federal agencies	1,506,047	62,858	1,568,905
Amounts due from local units	131,150	37,693	168,843
Inventories	5,177	-	5,177
Investments	-	-	-
Other current assets	854,649	19,099	873,748
Total Current Assets	<u>7,874,739</u>	<u>2,187,890</u>	<u>10,062,629</u>
Noncurrent Assets:			
Taxes, interest, and penalties receivable (Note 6)	213,010	64,167	277,177
Advances to other funds	1,926	-	1,926
Amounts due from federal agencies	4,093	-	4,093
Amounts due from local units	854,454	1,894	856,348
Investments	-	-	-
Other noncurrent assets	24,035	-	24,035
Total Noncurrent Assets	<u>1,097,518</u>	<u>66,061</u>	<u>1,163,579</u>
Total Assets	<u>\$ 8,972,257</u>	<u>\$ 2,253,951</u>	<u>\$ 11,226,208</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 113,230	\$ 394	\$ 113,623
Accounts payable and other liabilities	2,983,438	149,575	3,133,014
Income tax refunds payable (Note 7)	891,993	-	891,993
Amounts due to other funds	73,538	1,387,525	1,461,064
Amounts due to component units	10,226	-	10,226
Bonds and notes payable	-	-	-
Interest payable	-	-	-
Unearned revenue	73,740	-	73,740
Total Current Liabilities	<u>4,146,165</u>	<u>1,537,494</u>	<u>5,683,660</u>
Long-Term Liabilities:			
Advances from component units	641,885	-	641,885
Unearned revenue	7,547	-	7,547
Total Long-Term Liabilities	<u>649,432</u>	<u>-</u>	<u>649,432</u>
Total Liabilities	<u>4,795,598</u>	<u>1,537,494</u>	<u>6,333,092</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,492,371</u>	<u>485,445</u>	<u>1,977,816</u>
FUND BALANCES			
Nonspendable	76,746	-	76,746
Restricted	467,486	231,012	698,498
Committed	1,380,157	-	1,380,157
Assigned	152,269	-	152,269
Unassigned	607,631	-	607,631
Total Fund Balances	<u>2,684,289</u>	<u>231,012</u>	<u>2,915,301</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 8,972,257</u>	<u>\$ 2,253,951</u>	<u>\$ 11,226,208</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

MAJOR GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	GENERAL FUND	SCHOOL AID FUND	TOTALS
REVENUES			
Taxes	\$ 14,248,223	\$ 11,436,917	\$ 25,685,140
From federal agencies	18,180,541	1,585,222	19,765,763
From local agencies	93,888	-	93,888
From services	331,835	-	331,835
From licenses and permits	342,906	-	342,906
Special Medicaid reimbursements	115,621	-	115,621
Miscellaneous	963,231	33,628	996,859
Total Revenues	34,276,245	13,055,768	47,332,013
EXPENDITURES			
Current:			
General government	2,633,636	29,028	2,662,664
Education	1,721,372	14,005,217	15,726,589
Human services	4,944,457	-	4,944,457
Public safety and corrections	2,667,773	-	2,667,773
Conservation, environment, recreation, and agriculture	491,230	-	491,230
Labor, commerce, and regulatory	558,265	-	558,265
Health services	18,409,950	-	18,409,950
Transportation	268,188	-	268,188
Tax credits (Note 7)	672,400	-	672,400
Capital outlay	201,693	-	201,693
Intergovernmental-revenue sharing	1,213,432	-	1,213,432
Debt service:			
Bond principal retirement	-	-	-
Bond interest and fiscal charges	-	-	-
Capital lease payments	67,690	-	67,690
Total Expenditures	33,850,086	14,034,245	47,884,331
Excess of Revenues over (under) Expenditures	426,159	(978,477)	(552,319)
OTHER FINANCING SOURCES (USES)			
Bonds and bond anticipation notes issued	81,786	-	81,786
Refunding bonds issued	78	-	78
Premium on bond issuance	18,352	-	18,352
Discount on bond issuance	-	-	-
Payment to refunded bond escrow agent	-	-	-
Capital lease acquisitions	16,008	-	16,008
Proceeds from sale of capital assets	2,543	-	2,543
Transfers from other funds	269,447	944,007	1,213,453
Transfers to other funds	(645,526)	(9,610)	(655,136)
Total Other Financing Sources (Uses)	(257,313)	934,396	677,083
Net changes in fund balances	168,846	(44,081)	124,765
Fund Balances - Beginning of fiscal year - restated	2,515,443	275,093	2,790,536
Fund Balances - End of fiscal year	\$ 2,684,289	\$ 231,012	\$ 2,915,301

The accompanying notes are an integral part of the financial statements.



Michigan

SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**MICHIGAN TRANSPORTATION FUND**

Established pursuant to Michigan Compiled Laws Section 247.660, this fund accounts for the receipt and distribution of several tax revenues dedicated for highway purposes. Transfers are made to the General Fund, State Trunkline Fund, and the Comprehensive Transportation Fund. Expenditures include grants to counties, cities, and villages for highway purposes.

COMPREHENSIVE TRANSPORTATION FUND

Established pursuant to Michigan Compiled Laws Section 247.660b, this fund accounts for the planning and development of public transportation systems within the State. Federal revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund provide financing for expenditures.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
 SEPTEMBER 30, 2016
 (In Thousands)

	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 5	\$ -	\$ 5
Equity in common cash	93,432	56,081	149,512
Taxes, interest, and penalties receivable	96,086	-	96,086
Amounts due from other funds	-	35,973	35,973
Amounts due from federal agencies	-	67,193	67,193
Amounts due from local units	-	565	565
Other current assets	14	1,519	1,534
Total Current Assets	189,536	161,331	350,867
Taxes, interest, and penalties receivable	2,621	-	2,621
Amounts due from local units	-	369	369
Other noncurrent assets	-	227	227
Total Assets	\$ 192,157	\$ 161,927	\$ 354,084
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 880	\$ 169	\$ 1,049
Accounts payable and other liabilities	182,345	52,835	235,180
Amounts due to other funds	3,795	119	3,914
Unearned revenue	1	153	154
Total Current Liabilities	187,022	53,275	240,297
Long-Term Liabilities:			
Unearned revenue	-	34	34
Total Liabilities	187,022	53,310	240,332
DEFERRED INFLOWS OF RESOURCES	5,136	764	5,899
FUND BALANCES			
Restricted	-	107,853	107,853
Total Fund Balances	-	107,853	107,853
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 192,157	\$ 161,927	\$ 354,084

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
REVENUES			
Taxes	\$ 2,029,277	\$ 84,499	\$ 2,113,776
From federal agencies	2	74,515	74,517
From services	3,970	-	3,970
From licenses and permits	36,643	637	37,280
Miscellaneous	1,009	14,248	15,257
Total Revenues	2,070,901	173,899	2,244,800
EXPENDITURES			
Current:			
Transportation	1,009,601	340,011	1,349,611
Total Expenditures	1,009,601	340,011	1,349,611
Excess of Revenues over (under) Expenditures	1,061,300	(166,112)	895,188
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	1,427	178,344	179,771
Transfers to other funds	(1,062,727)	(18,374)	(1,081,101)
Total Other Financing Sources (Uses)	(1,061,300)	159,970	(901,330)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	(6,142)	(6,142)
Fund Balances - Beginning of fiscal year	-	113,995	113,995
Fund Balances - End of fiscal year	\$ -	\$ 107,853	\$ 107,853



SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

MICHIGAN CONSERVATION AND RECREATION LEGACY FUND

This fund ("Legacy Fund") was created by Article 9, Section 40, of the State Constitution, an amendment approved by voters in November 2006. The purpose of the amendment was to constitutionally prevent the diversion of certain funds and revenues for purposes other than those for which they were created. Section 40 created the following accounts within the Legacy Fund: Forest Recreation, Game and Fish Protection, Off-Road Vehicle, Recreation Improvement, Snowmobile, State Park Improvement, and Waterways.

The implementing legislation related to this amendment, found in Sections 324.2002 – 324.2035 of the Michigan Compiled Laws, transferred a number of special revenue funds and certain restrictively financed activities within the General Fund to the Legacy Fund. The following special revenue funds were transferred into the fund: Game and Fish Protection Fund, Michigan State Waterways Fund, Marine Safety Fund, and State Park Improvement Fund. The restrictively financed activities transferred into the fund from the General Fund were related to various outdoor recreation activities including snowmobiles, off-road vehicles, recreation trails, and State forest recreation.

Financing consists primarily of hunting and fishing licenses; camping and park entrance fees; 2 percent of gasoline taxes dedicated for boating, snowmobiling, off-road vehicles and other trails; watercraft and snowmobile registration fees; and trail use permits. The fund also receives funding from the Michigan Game and Fish Protection Trust Fund. Expenditures are limited to those activities specified in Section 40 and include forest recreation activities, wildlife and fisheries programs, off-road vehicle and snowmobile trails and facilities, State parks and recreation areas, improvement of lake harbors and inland waterways, and water safety education programs.

MICHIGAN GAME AND FISH PROTECTION TRUST FUND

The former Game and Fish Protection Trust Fund was established in 1986 to restrict certain assets for the purpose of generating interest and earnings for transfer to the former Game and Fish Protection Fund (now accounted for within the Michigan Conservation and Recreation Legacy Fund). Article 9, Section 41, of the State Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Game and Fish Protection Trust Fund.

The fund operates under Sections 324.43702 – 324.43704 of the Michigan Compiled Laws. The Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Account of the Michigan Conservation and Recreation Legacy Fund. Mineral royalties from lands acquired by the Game and Fish Protection Account; direct sale proceeds; and other revenues, which, by statute, are retained for permanent investment, provide additional investment funding.

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND

The former Michigan Nongame Fish and Wildlife Fund was established in 1983 to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. Article 9, Section 42, of the State Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Nongame Fish and Wildlife Trust Fund.

The fund operates under Sections 324.43902 – 324.43907 of the Michigan Compiled Laws. The fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

FOREST DEVELOPMENT FUND

This fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Michigan Compiled Laws Section 324.50507. The primary revenue source of the fund is timber revenue from State forest lands. Expenditures from the fund are for forest management activities and forest fire protection. The Authority is authorized to, but thus far has not, issued bonds.

BOTTLE DEPOSITS FUND

Michigan Compiled Laws (MCL) Section 445.573c created the Bottle Deposits Fund to provide for the disposition of unredeemed bottle deposits. The Department of Treasury and the Department of Environmental Quality (DEQ) jointly administer the fund. The law mandates that an annual distribution of the funds be made as follows: 25 percent returned to the dealers and 75 percent to fund several sub-funds.

The 75 percent distribution to DEQ is initially deposited into the Cleanup and Redevelopment Trust Sub-Fund (CRTF), and if not further distributed, remains there until the principal amount reaches \$200 million. Of funds received annually by the CRTF, 80 percent is allocated to the Cleanup and Redevelopment Sub-Fund (CRF) and 10 percent to the Community Pollution Prevention Sub-Fund.

MCL Section 324.20108 moved the former Environmental Response Fund (ERF) to a sub-fund of the CRF. The law mandates that proceeds of all cost recovery actions taken and settlements entered into pursuant to the ERF (excluding natural resource damages) by DEQ or the Attorney General, or both, shall be credited to the ERF.

Several DEQ sub-funds are administratively housed within the Bottle Deposits Fund, although they receive no bottle deposits revenue. Included is the State Sites Cleanup Sub-Fund, established in accordance with MCL Section 324.20108c to provide for response activities at facilities where the State is liable as an owner or operator. The following loan programs administered by DEQ are also included: the Brownfield Revolving Loan Fund created by MCL Section 324.19608a, the Revitalization Revolving Loan Fund created by MCL Section 324.20108a, and the Federal Brownfield Cleanup and Revolving Loan Fund.

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
ASSETS		
Current Assets:		
Cash	\$ 97	\$ 4
Equity in common cash	96,482	-
Taxes, interest, and penalties receivable	145	-
Amounts due from federal agencies	2,556	-
Amounts due from local units	853	-
Inventories	440	-
Other current assets	5,385	2,992
Total Current Assets	105,957	2,996
Taxes, interest, and penalties receivable	7	-
Amounts due from local units	-	-
Investments	1,817	234,677
Other noncurrent assets	-	-
Total Assets	\$ 107,781	\$ 237,673
LIABILITIES		
Current Liabilities:		
Warrants outstanding	\$ 142	\$ -
Accounts payable and other liabilities	13,549	-
Amounts due to other funds	1,688	8,229
Unearned revenue	1,767	-
Total Current Liabilities	17,146	8,229
Total Liabilities	17,146	8,229
DEFERRED INFLOWS OF RESOURCES	7	-
FUND BALANCES		
Nonspendable	-	189,459
Restricted	90,628	39,985
Total Fund Balances	90,628	229,443
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 107,781	\$ 237,673

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ 42	\$ -	\$ 142
2,714	21,594	51,492	172,283
-	-	-	145
-	10	-	2,566
-	-	1,208	2,061
-	-	-	440
26	139	599	9,141
2,739	21,786	53,299	186,777
-	-	-	7
-	-	17,822	17,822
5,345	-	-	241,839
-	-	427	427
\$ 8,085	\$ 21,786	\$ 71,547	\$ 446,871
\$ -	\$ 10	\$ 47	\$ 199
17	3,011	1,495	18,073
2	363	216	10,499
-	-	-	1,767
20	3,385	1,758	30,538
20	3,385	1,758	30,538
-	-	624	630
6,000	-	8,027	203,486
2,065	18,401	61,139	212,217
8,065	18,401	69,166	415,703
\$ 8,085	\$ 21,786	\$ 71,547	\$ 446,871

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
REVENUES		
Taxes	\$ 181	\$ -
From federal agencies	5,290	-
From licenses and permits	156,558	-
Miscellaneous	4,730	26,614
Total Revenues	166,760	26,614
EXPENDITURES		
Current:		
General government	2,807	365
Conservation, environment, recreation, and agriculture	173,188	124
Capital outlay	10,859	-
Total Expenditures	186,855	489
Excess of Revenues over (under) Expenditures	(20,095)	26,125
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	33,736	-
Transfers to other funds	(3,063)	(16,090)
Total Other Financing Sources (Uses)	30,673	(16,090)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	10,578	10,035
Fund Balances - Beginning of fiscal year	80,050	219,408
Fund Balances - End of fiscal year	\$ 90,628	\$ 229,443

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ 181
-	99	-	5,389
-	2	-	156,560
1,617	40,506	22,727	96,195
1,617	40,607	22,727	258,325
-	-	-	3,172
340	36,959	19,931	230,542
-	153	-	11,012
340	37,112	19,931	244,726
1,277	3,495	2,797	13,599
-	-	-	33,736
(5)	(3,433)	(2,554)	(25,145)
(5)	(3,433)	(2,554)	8,591
1,272	62	243	22,190
6,793	18,339	68,923	393,514
\$ 8,065	\$ 18,401	\$ 69,166	\$ 415,703



SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

Michigan Compiled Laws (MCL) Section 570.1201 created the Homeowner Construction Lien Recovery Fund to allow contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid, despite filing a residential lien. MCL 570.1201 was repealed effective August 23, 2010. The Fund is still accruing monies received from licensees who had final orders issued by the Michigan Residential Builders' and Maintenance and Alteration Contractors' Board to reimburse the payouts from the Fund and/or legal costs.

MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND

Michigan Compiled Laws Section 421.10 created this fund to account for administrative costs of the Unemployment Insurance Agency, which is administered by the Department of Talent and Economic Development. The fund derives most of its revenue from federal grants. It also receives transfers from the Michigan Employment Security Act Contingent Fund (reported as part of the Michigan Unemployment Compensation Funds, an enterprise fund). Expenditures for administration are subject to legislative appropriation.

Unemployment benefit payments to individuals are made directly from funds accumulated from employer premiums. These activities are reported in the Michigan Unemployment Compensation Funds.

SAFETY EDUCATION AND TRAINING FUND

Michigan Compiled Laws Section 408.1055 imposes an annual levy on each insurance carrier licensed to write workers' disability compensation business in the State and on each self-insured employer. The Safety Education and Training Fund was established to receive these assessments for supporting the safety education and training activities of the Department of Licensing and Regulatory Affairs' Michigan Occupational Safety and Health Administration.

SECOND INJURY FUND

Michigan Compiled Laws Section 418.501 created the Second Injury Fund to insure carriers and self-insured employers against certain workers' compensation losses. The administrator, appointed by the fund's Board of Trustees, supervises the fund. The fund's revenue consists of assessments, calculated under provisions of the act, which are assessed to insurance carriers and self-insured employers licensed or authorized in Michigan.

SELF-INSURERS' SECURITY FUND

Established by Michigan Compiled Laws Section 418.501, the Self-Insurers' Security Fund (SISF) pays workers' compensation benefits to injured employees of insolvent, private self-insured employers. Revenues are generated through annual assessments of private self-insured employers.

The SISF also administers bankrupt self-insured employer trust funds that are created for the payment of employer obligations due under the Michigan Workers' Disability Compensation Act. Employer obligations are reported as liabilities of this fund.

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND

Established by Michigan Compiled Laws Section 418.501, the Silicosis, Dust Disease, and Logging Industry Compensation Fund reimburses insurance carriers and self-insured employers licensed or authorized in Michigan who pay benefits to employees injured from certain dust diseases, and employees who have sustained personal injury or death while being employed in the logging industry. Revenues are generated through annual assessments of insurance carriers and self-insured employers licensed or authorized in Michigan.

STATE CONSTRUCTION CODE FUND

Michigan Compiled Laws Section 125.1522 created the State Construction Code Fund. Fees received for building permit applications and other funds collected under this legislation are appropriated by the Legislature for the operation of the Department of Licensing and Regulatory Affairs' Bureau of Construction Codes and related indirect overhead expenditures.

UTILITY CONSUMER REPRESENTATION FUND

Established by Michigan Compiled Laws Section 460.6m, the Utility Consumer Representation Fund provides funding, on behalf of residential gas, fuel, and electric customers, for energy cost recovery hearings before the Michigan Public Service Commission. The costs of operation and expenses incurred by the Utility Consumer Participation board in performing its duties under this section and section 460.6l, shall also be paid from the fund. Revenues are generated through annual assessments of regulated utility companies.

UNEMPLOYMENT OBLIGATION TRUST FUND

This fund was created by Michigan Compiled Laws (MCL) Section 421.10a to facilitate the repayment of debt incurred through a bond issuance authorized under the Employment Security Financing Act (MCL 12.271 et seq.) and MCL 421.26a. This debt was issued in order to repay advances received from the Federal Government that were provided to temporarily assist Michigan with unemployment payments that exceeded current revenue collections. Revenues within the Obligation Trust Fund are generated from annual assessments on employers. Payments are made to the Michigan Finance Authority, a discretely presented component unit, which currently holds the bonds and makes regular payments to the bond holders.

STATE CASINO GAMING FUND

Created by Michigan Compiled Laws (MCL) Section 432.212, this fund provides the licensing, regulation, and control of casino gaming activities in Michigan via the five-member gaming control board created under MCL 432.204. Additional responsibilities include the performance of authorized inspections of tribal Class III gaming facilities and records pursuant to and in accordance with the provisions of the various tribal/state compacts as delegated by the Governor in November 2002; the regulation of live horse racing per Executive Order 2009-45; and the licensing and regulation of Millionaire Party charitable gaming events per Executive Order 2012-4.

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED

SEPTEMBER 30, 2016

(In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
ASSETS					
Current Assets:					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in common cash	242	-	7,606	11,105	33,389
Amounts due from other funds	-	790	-	-	-
Amounts due from component units	-	106	-	-	-
Amounts due from federal agencies	-	26,395	-	-	-
Amounts due from local units	-	24	-	-	-
Other current assets	-	-	-	338	1,060
Total Current Assets	<u>242</u>	<u>27,315</u>	<u>7,606</u>	<u>11,443</u>	<u>34,449</u>
Total Assets	<u>\$ 242</u>	<u>\$ 27,315</u>	<u>\$ 7,606</u>	<u>\$ 11,443</u>	<u>\$ 34,449</u>
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ -	\$ 21	\$ 15	\$ 180	\$ 391
Accounts payable and and other liabilities	-	6,278	453	1,167	10,088
Amounts due to other funds	-	21,016	114	18	12
Amounts due to component units	-	-	-	-	-
Unearned revenue	-	-	-	2,061	1,159
Total Current Liabilities	<u>-</u>	<u>27,315</u>	<u>582</u>	<u>3,426</u>	<u>11,649</u>
Total Liabilities	<u>-</u>	<u>27,315</u>	<u>582</u>	<u>3,426</u>	<u>11,649</u>
DEFERRED INFLOWS OF RESOURCES					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable	-	-	-	28	-
Restricted	242	-	7,025	7,989	22,800
Committed	-	-	-	-	-
Total Fund Balances	<u>242</u>	<u>-</u>	<u>7,025</u>	<u>8,017</u>	<u>22,800</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 242</u>	<u>\$ 27,315</u>	<u>\$ 7,606</u>	<u>\$ 11,443</u>	<u>\$ 34,449</u>

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	STATE CONSTRUCTION CODE FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	STATE CASINO GAMING FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 6
1,277	8,288	1,869	1,012	14,931	79,719
-	-	-	1,258	-	2,048
-	-	-	-	-	106
-	-	-	-	-	26,395
-	-	-	-	-	24
129	-	-	63,293	296	65,118
1,406	8,288	1,869	65,563	15,234	173,415
<u>\$ 1,406</u>	<u>\$ 8,288</u>	<u>\$ 1,869</u>	<u>\$ 65,563</u>	<u>\$ 15,234</u>	<u>\$ 173,415</u>
\$ 30	\$ 5	\$ -	\$ -	\$ 2	\$ 644
294	254	90	-	806	19,430
5	95	5	-	263	21,528
-	-	-	58,652	-	58,652
256	-	-	-	49	3,525
585	354	95	58,652	1,120	103,779
585	354	95	58,652	1,120	103,779
-	-	-	6,910	-	6,910
-	-	-	-	-	28
821	7,934	1,774	-	10,215	58,800
-	-	-	-	3,898	3,898
821	7,934	1,774	-	14,113	62,726
<u>\$ 1,406</u>	<u>\$ 8,288</u>	<u>\$ 1,869</u>	<u>\$ 65,563</u>	<u>\$ 15,234</u>	<u>\$ 173,415</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
REVENUES					
From federal agencies	\$ -	\$ 124,266	\$ -	\$ -	\$ -
From services	-	-	-	-	-
From licenses and permits	-	-	-	-	-
Miscellaneous	19	13	11,092	9,137	4,958
Total Revenues	19	124,279	11,092	9,137	4,958
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Labor, commerce, and regulatory	-	136,941	9,818	10,372	8,414
Debt Service:					
Capital lease payments	-	688	-	-	-
Total Expenditures	-	137,629	9,818	10,372	8,414
Excess of Revenues over (under) Expenditures	19	(13,350)	1,274	(1,235)	(3,457)
OTHER FINANCING SOURCES (USES)					
Capital lease acquisitions	-	2,415	-	-	-
Transfers from other funds	-	12,345	-	-	-
Transfers to other funds	-	(1,410)	(134)	(22)	(13)
Total Other Financing Sources (Uses)	-	13,350	(134)	(22)	(13)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	19	-	1,141	(1,257)	(3,470)
Fund Balances - Beginning of fiscal year	222	-	5,884	9,274	26,270
Fund Balances - End of fiscal year	\$ 242	\$ -	\$ 7,025	\$ 8,017	\$ 22,800

SILICOSIS, DUST
DISEASE, AND
LOGGING
INDUSTRY
COMPENSATION
FUND

STATE
CONSTRUCTION
CODE FUND

UTILITY CONSUMER
REPRESENTATION
FUND

UNEMPLOYMENT
OBLIGATION
TRUST FUND

STATE CASINO
GAMING FUND

TOTALS

\$ -	\$ -	\$ -	\$ -	\$ -	\$ 124,266
-	4	-	-	3	7
-	14,151	-	-	1,087	15,237
1,209	17	1,185	480,030	36,022	543,681
1,209	14,172	1,185	480,030	37,111	683,192
-	-	688	-	27,990	28,678
1,574	8,505	561	480,030	-	656,216
-	-	-	-	-	688
1,574	8,505	1,249	480,030	27,990	685,582
(365)	5,667	(64)	-	9,121	(2,390)
-	-	-	-	-	2,415
-	-	-	-	4,273	16,619
(5)	(112)	(5)	-	(11,915)	(13,617)
(5)	(112)	(5)	-	(7,642)	5,417
(370)	5,554	(69)	-	1,479	3,027
1,191	2,380	1,843	-	12,634	59,699
\$ 821	\$ 7,934	\$ 1,774	\$ -	\$ 14,113	\$ 62,726



SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

21st CENTURY JOBS TRUST FUND

Michigan Compiled Laws Section 12.257 created the 21st Century Jobs Trust Fund to account for the transfer of the net bond proceeds issued by the Michigan Tobacco Settlement Finance Authority. Executive Order 2010-2 moved the Authority to the Michigan Finance Authority. The bonds were issued to provide sufficient funds to purchase all or a portion of the State's receipts from the master settlement agreement between tobacco manufacturers and the State. Fund expenditures are used to reimburse the Michigan Strategic Fund for expenses related to revitalizing Michigan's economy and for other programs as determined by the Legislature. The fund may accept donations of money from any source; all interest earned is deposited into the State's General Fund. Beginning in fiscal year 2008 through 2019, the fund will also receive a portion of the tobacco settlement revenue received by the State.

MICHIGAN MERIT AWARD TRUST FUND

This fund was created by Michigan Compiled Laws (MCL) Section 12.259 to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. The settlement reimburses the State for health care costs, which result from the use of tobacco products. The fund also consists of interest and earnings from trust fund investments and donations. Fund expenditures are used for programs, as determined by the Legislature.

All assets and liabilities of the Tobacco Settlement Trust Fund, established by MCL Section 12.253 and repealed as part of tobacco securitization legislation passed in November 2005, were transferred to the Michigan Merit Award Trust Fund in fiscal year 2006.

CHILDREN'S TRUST FUND

Michigan Compiled Laws (MCL) Section 21.171, established the Children's Trust Fund to support the State Child Abuse and Neglect Prevention Board (MCL Section 722.603) to coordinate and fund activities for the prevention of child abuse and neglect in the State. All money contributed to the fund in a fiscal year, plus 4.25 percent of the twelve-quarter rolling average of the fund, shall be available for disbursement. Beginning October 1, 2017, provided that the rolling average of the fund for the previous twelve quarters is at least \$23.5 million, up to 5 percent of the twelve-quarter rolling average shall be available for disbursement. If the rolling average is less than \$23.5 million, up to 4.25 percent of the twelve-quarter rolling average shall continue to be available for disbursement. Money received as gifts or donations to the trust fund shall be available for disbursement upon appropriation. Funds that are not available for disbursement are reported as nonspendable fund balance.

MILITARY FAMILY RELIEF FUND

Michigan Compiled Laws Section 35.1213 created this fund to provide assistance to families of certain members of the reserve components of the United States armed forces on active duty. A qualified individual or the individual's family shall apply to the Department of Military and Veterans Affairs for a grant from the fund. Funds are received primarily from taxpayer contributions on his or her annual State tax return designating \$1 or more of his or her refund to be credited to this fund.

MISCELLANEOUS SPECIAL REVENUE FUNDS

The miscellaneous special revenue funds column reflects the activities of the following funds: Children's Institute Trust, Special Assessment Deferment, and Intrastate Switched Toll Restructuring.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 285,516	\$ 789	\$ 2,941
Other current assets	56,250	101,552	236
Total Current Assets	341,766	102,341	3,177
Investments	-	-	23,852
Other noncurrent assets	-	814	-
Total Assets	\$ 341,766	\$ 103,155	\$ 27,029
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 1	\$ 3
Accounts payable and other liabilities	-	871	296
Amounts due to other funds	-	30	11
Total Current Liabilities	-	902	311
Total Liabilities	-	902	311
DEFERRED INFLOWS OF RESOURCES	56,250	102,134	-
FUND BALANCES			
Nonspendable	-	-	23,808
Restricted	-	-	2,911
Committed	285,516	119	-
Total Fund Balances	285,516	119	26,718
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 341,766	\$ 103,155	\$ 27,029

MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ 2,345	\$ 5,777	\$ 297,369
-	133	158,171
<u>2,345</u>	<u>5,910</u>	<u>455,539</u>
-	-	23,852
-	398	<u>1,212</u>
<u>\$ 2,345</u>	<u>\$ 6,308</u>	<u>\$ 480,603</u>
\$ 3	\$ 219	\$ 226
19	1,117	2,303
-	7	48
<u>22</u>	<u>1,343</u>	<u>2,578</u>
22	1,343	<u>2,578</u>
-	165	<u>158,549</u>
-	-	23,808
2,323	4,800	10,034
-	-	<u>285,635</u>
<u>2,323</u>	<u>4,800</u>	<u>319,477</u>
<u>\$ 2,345</u>	<u>\$ 6,308</u>	<u>\$ 480,603</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - OTHER STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
REVENUES			
From federal agencies	\$ -	\$ -	\$ 776
Miscellaneous	75,000	96,468	2,598
Total Revenues	75,000	96,468	3,374
EXPENDITURES			
Current:			
General government	170,692	61,978	-
Human services	-	30,100	1,800
Public safety and corrections	-	779	-
Labor, commerce, and regulatory	-	-	-
Health services	-	64,650	-
Total Expenditures	170,692	157,507	1,800
Excess of Revenues over (under) Expenditures	(95,692)	(61,040)	1,574
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	93,400	-	-
Transfers to other funds	-	(28)	(6)
Total Other Financing Sources (Uses)	93,400	(28)	(6)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(2,292)	(61,068)	1,569
Fund Balances - Beginning of fiscal year	287,808	61,187	25,150
Fund Balances - End of fiscal year	\$ 285,516	\$ 119	\$ 26,718

MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ -	\$ -	\$ 776
77	18,061	192,203
77	18,061	192,979
-	-	232,670
-	-	31,900
195	-	974
-	16,347	16,347
-	-	64,650
195	16,347	346,542
(119)	1,714	(153,563)
-	-	93,400
-	(8)	(42)
-	(8)	93,358
(119)	1,705	(60,205)
2,441	3,095	379,681
\$ 2,323	\$ 4,800	\$ 319,477



DEBT SERVICE FUNDS

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all State Trunkline Fund (STF) related bond issues allowed for under Michigan Compiled Laws Section 247.661. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution and irrevocably pledged by law for deposit in STF. Debt service requirements are funded by annual appropriations in STF.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all Comprehensive Transportation Fund (CTF) related bond issues allowed for under Michigan Compiled Laws Section 247.660b. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for comprehensive transportation purposes by Article 9, Section 9, of the State Constitution and irrevocably pledged by law for deposit in CTF. Debt service requirements are funded by annual appropriations in CTF.

RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

This fund was established pursuant to Michigan Compiled Laws (MCL) Sections 324.19506, 324.71506, and 324.95102 to service recreation and environmental protection bond issues. This fund also reflects debt service transactions related to State Park Improvement Fund (SPIF) revenue bonds, issued pursuant to MCL Section 324.74106.

Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund, transfers from SPIF representing state park revenues pledged for the payment of State Park Gross Revenue Bonds, and transfers from other funds as required by legislative appropriation or executive order.

Included in the restricted fund balance on the balance sheet is a \$300 thousand reserve account required by the State Park Gross Revenue Bonds document for additional security to pay bond principal and interest.

SCHOOL LOAN BOND REDEMPTION FUND

Michigan Compiled Laws Section 388.922 created this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund or School Aid Fund.

STATE BUILDING AUTHORITY

The State Building Authority (SBA) was created pursuant to Michigan Compiled Laws Section 830.412, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education, as well as State furnishings and equipment.

SBA projects are financed by revenue bonds, the proceeds of which can only be used for construction and debt service on projects related to particular bond issues. During construction, debt service requirements are financed by a portion of the bond proceeds that are dedicated for that purpose. For completed projects, the resources to finance bond interest and redemption are provided by transfers from the General Fund and from investment earnings of this fund. When a project is completed, the remaining assets are transferred to this fund where they are invested and used for debt service. Excess balances related to a particular bond series remaining in the fund after the final payment on the bond series are transferred to the General Fund.

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 5	\$ 162	\$ 1,743
Investments	-	-	-
Other current assets	-	-	-
Total Current Assets	<u>5</u>	<u>162</u>	<u>1,743</u>
Total Assets	<u>\$ 5</u>	<u>\$ 162</u>	<u>\$ 1,743</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 2	\$ -	\$ -
Accounts payable and other liabilities	3	162	6
Total Current Liabilities	<u>5</u>	<u>162</u>	<u>6</u>
Total Liabilities	<u>5</u>	<u>162</u>	<u>6</u>
FUND BALANCES			
Restricted	-	-	1,737
Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,737</u>
Total Liabilities and Fund Balances	<u>\$ 5</u>	<u>\$ 162</u>	<u>\$ 1,743</u>

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ 14	\$ -	\$ 1,924
-	187,078	187,078
-	879	879
14	187,957	189,881
<u>\$ 14</u>	<u>\$ 187,957</u>	<u>\$ 189,881</u>
\$ -	\$ -	\$ 2
14	30	215
14	30	217
14	30	217
-	187,927	189,664
-	187,927	189,664
<u>\$ 14</u>	<u>\$ 187,957</u>	<u>\$ 189,881</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
REVENUES			
Miscellaneous	\$ -	\$ -	\$ 73
Total Revenues	-	-	73
EXPENDITURES			
Current:			
General government	-	-	739
Education	-	-	-
Transportation	2,353	1	-
Debt Service:			
Bond principal retirement	125,465	16,525	118,495
Bond interest and fiscal charges	79,106	6,191	31,116
Total Expenditures	206,924	22,716	150,350
Excess of Revenues over (under) Expenditures	(206,924)	(22,716)	(150,277)
OTHER FINANCING SOURCES (USES)			
Bonds and bond anticipation notes issued	-	-	454
Refunding bonds issued	661,165	-	59,950
Premium on bond issuance	153,679	-	13,653
Discount on bond issuance	-	-	-
Payment to refunded bond escrow agent	(812,491)	-	(73,356)
Transfers from other funds	204,571	22,716	149,630
Transfers to other funds	-	-	-
Total Other Financing Sources (Uses)	206,924	22,716	150,332
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	55
Fund Balances - Beginning of fiscal year	-	-	1,681
Fund Balances - End of fiscal year	\$ -	\$ -	\$ 1,737

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ -	\$ 8	\$ 81
-	8	81
438	-	1,177
-	3,018	3,018
-	-	2,353
83,432	108,778	452,695
42,673	117,282	276,369
126,544	229,078	735,612
(126,544)	(229,070)	(735,531)
-	-	454
129,007	575,195	1,425,317
-	89,744	257,076
-	(2,773)	(2,773)
(128,569)	(659,983)	(1,674,399)
126,105	224,894	727,918
-	(62)	(62)
126,544	227,015	733,531
-	(2,055)	(2,000)
-	189,982	191,664
\$ -	\$ 187,927	\$ 189,664

CAPITAL PROJECTS FUNDS

STATE TRUNKLINE FUND

Established pursuant to Michigan Compiled Laws Section 247.661, this fund accounts for highway construction and maintenance. Its annual budget is subject to legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. The majority of projects in this fund are owned by the State. Financing consists primarily of federal aid, local participation, and transfers from the Michigan Transportation Fund. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations.

This fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Activities of the Blue Water Bridge program, segregated as a separate fund within the accounting system, are also reported within the State Trunkline Fund.

STATE AERONAUTICS FUND

Established pursuant to Michigan Compiled Laws Section 259.34, this fund accounts for airport improvement projects, of which a majority are locally owned. Financing consists primarily of aviation fuel taxes and federal contributions.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

Established pursuant to Michigan Compiled Laws Section 247.668b, this fund accounts for the proceeds of State trunkline revenue dedicated bonds. These bonds are used in part to finance the costs of road and bridge construction. All projects accounted for by this fund are owned by the State.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

Established pursuant to Michigan Compiled Laws Section 247.668b, this fund accounts for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are used in part to finance the costs of locally owned comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUNDS

The Michigan Department of Transportation is recognized as the legal representative of the State, including all governmental subdivisions, in the administration of the Federal Highway Administration programs. The financing accounted for in this fund consists primarily of revenues from the federal Highway Trust Fund utilized to reimburse municipalities for road and bridge program activities with very little State funds. All projects accounted for in this fund are locally owned.

COMBINED RECREATION BOND FUND

Established in 1988, this fund has operated under Michigan Compiled Law Sections 324.19601 – 324.19616, 324.71303, 324.71501 – 324.71514, and 324.74106 – 324.74113. The balances in the fund are derived from proceeds and investment earnings remaining from \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative" for both State and local projects. The balance retained in the fund is currently being appropriated for post completion inspection of local projects.

A 1988 bond package, which has been fully expended, provided \$70 million of general obligation bonds to finance State and local public recreation projects to construct, expand, and develop recreational facilities at State parks, provide grants and loans to local units of government for recreation projects and to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package have been used to improve State parks with the installation or upgrade of drinking water systems or restroom facilities and provide grants and loans to local units of government for recreation projects.

In fiscal year 2011, bond balances related to the 1998 bond package used to improve State parks were transferred to the State Park Improvement Account within the Michigan Conservation and Recreation Legacy Fund pursuant to Public Act 50 of 2011, Section 303. A significant portion of the remaining bond balances related to the 1998 bond package used for grants to local units of government were transferred to the Michigan Natural Resources Trust Fund pursuant to Public Act 50 of 2011, Section 302.

STATE BUILDING AUTHORITY

The State Building Authority (SBA) was created pursuant to Michigan Compiled Laws Section 830.412, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education, as well as State furnishings and equipment. The SBA's five-member board is appointed by the Governor.

This capital projects fund accounts for the construction of State projects, certain equipment financing, and higher education related projects. Transfers out reflect transfers to the debt service fund of proceeds dedicated for debt service during construction, reimbursements of expenditures to the SBA Advance Financing Fund, and the transfer of assets remaining after the completion of a project to the debt service fund. In the State's Government-wide Financial Statements, accumulated expenditures for incomplete projects are reflected as "construction in progress" and completed projects are recorded as "buildings."

ADVANCE FINANCING FUNDS

The Advance Financing Funds reflects the activities of two sub-funds: the State Building Authority (SBA) Advance Financing Fund and the Site Preparation Economic Development Fund.

The SBA Advance Financing Fund was administratively established to account for expenditures incurred for equipment, higher education, and State projects prior to the issuance of SBA bonds. Appropriation acts and concurrent resolutions provide temporary financing of such expenditures for legislatively authorized projects. Expenditures on behalf of SBA are recorded when incurred. At year-end, any deficit in the common cash pool is reclassified as an interfund liability. In addition to advance expenditures, expenditures financed by the General Fund or other sources related to the SBA projects are recorded in this fund.

SBA, in its separately issued statements, does not recognize liabilities for these projects until bonds or commercial paper are issued; therefore, no receivable from SBA is recognized in this fund prior to bond or commercial paper issuance. This results in the fund showing a year-end fund balance deficit. SBA will reimburse this fund by recording a transfer and the deficit attributable to the bonded projects will be eliminated when SBA issues bonds or obtains commercial paper.

The Site Preparation Economic Development Fund is created through the annual appropriations process to account for expenditures incurred to prepare and sell State owned sites declared as surplus that would provide economic benefit to the area or State. Expenditures are recorded when incurred. Sale proceeds of fund properties are deposited into the fund.

COMBINING BALANCE SHEET

CAPITAL PROJECTS FUNDS

SEPTEMBER 30, 2016

(In Thousands)

	STATE TRUNKLINE FUND	STATE AERONAUTICS FUND	COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND
ASSETS				
Current Assets:				
Cash	\$ 69	\$ -	\$ -	\$ -
Equity in common cash	900,319	4,284	43,841	7,911
Taxes, interest, and penalties receivable	-	1,248	-	-
Amounts due from other funds	2,955	-	-	-
Amounts due from component units	1,124	-	-	-
Amounts due from federal agencies	106,471	37,643	1,666	-
Amounts due from local units	19,202	5,513	1,573	-
Inventories	12,219	-	-	-
Investments	-	-	-	-
Other current assets	17,537	54	-	-
Total Current Assets	1,059,897	48,742	47,080	7,911
Amounts due from local units	40,066	277	-	-
Total Assets	\$ 1,099,963	\$ 49,018	\$ 47,080	\$ 7,911
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 4,349	\$ 25	\$ -	\$ -
Accounts payable and other liabilities	156,528	24,138	151	1,285
Amounts due to other funds	4,668	9,438	-	-
Bonds and notes payable	-	-	-	-
Interest payable	-	-	-	-
Unearned revenue	5,413	-	30	-
Total Current Liabilities	170,958	33,601	181	1,285
Long-Term Liabilities:				
Unearned revenue	28	-	-	-
Total Liabilities	170,986	33,601	181	1,285
DEFERRED INFLOWS OF RESOURCES	488	-	-	-
FUND BALANCES				
Nonspendable	12,219	-	-	-
Restricted	916,270	15,418	46,899	6,625
Unassigned	-	-	-	-
Total Fund Balances	928,490	15,418	46,899	6,625
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,099,963	\$ 49,018	\$ 47,080	\$ 7,911

TRANSPORTATION RELATED TRUST FUNDS	COMBINED RECREATION BOND FUND	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 70
-	28	63	-	956,445
-	-	-	-	1,248
-	-	-	20,007	22,963
-	-	-	-	1,124
38,817	-	-	-	184,597
50,134	-	-	-	76,422
-	-	-	-	12,219
-	-	29,740	-	29,740
-	-	-	-	17,592
<u>88,952</u>	<u>28</u>	<u>29,803</u>	<u>20,007</u>	<u>1,302,419</u>
-	-	-	-	40,342
<u>\$ 88,952</u>	<u>\$ 28</u>	<u>\$ 29,803</u>	<u>\$ 20,007</u>	<u>\$ 1,342,761</u>
\$ 73	\$ -	\$ -	\$ -	\$ 4,447
63,095	-	519	17,307	263,022
25,784	-	20,014	2,806	62,710
-	-	71,175	-	71,175
-	-	2	-	2
-	-	-	-	5,443
<u>88,952</u>	<u>-</u>	<u>91,709</u>	<u>20,113</u>	<u>406,799</u>
-	-	-	-	28
<u>88,952</u>	<u>-</u>	<u>91,709</u>	<u>20,113</u>	<u>406,826</u>
-	-	-	-	488
-	-	-	-	12,219
-	28	-	-	985,240
-	-	(61,906)	(106)	(62,012)
-	28	(61,906)	(106)	935,447
<u>\$ 88,952</u>	<u>\$ 28</u>	<u>\$ 29,803</u>	<u>\$ 20,007</u>	<u>\$ 1,342,761</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

CAPITAL PROJECTS FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	STATE TRUNKLINE FUND	STATE AERONAUTICS FUND	COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND
REVENUES				
Taxes	\$ -	\$ 6,133	\$ -	\$ -
From federal agencies	783,776	57,181	64,154	-
From local agencies	20,411	68	88	-
From services	3,322	744	-	-
From licenses and permits	17,802	363	-	-
Miscellaneous	80,525	127	65	75
Total Revenues	905,836	64,616	64,307	75
EXPENDITURES				
Current:				
Education	-	-	-	-
Conservation, environment, recreation, and agriculture	-	-	-	-
Transportation	694,014	68,509	53	2,603
Capital outlay	859,676	110	5,752	8
Debt service:				
Capital lease payments	605	-	-	-
Total Expenditures	1,554,295	68,619	5,806	2,611
Excess of Revenues over (under) Expenditures	(648,459)	(4,003)	58,502	(2,537)
OTHER FINANCING SOURCES (USES)				
Bonds and bond anticipation notes issued	-	-	-	-
Premium on bond issuance	23	-	-	-
Capital lease acquisitions	898	-	-	-
Proceeds from sale of capital assets	501	-	-	-
Transfers from other funds	883,606	8,000	2	-
Transfers to other funds	(215,394)	(4,624)	(34,852)	-
Total Other Financing Sources (Uses)	669,635	3,376	(34,850)	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	21,176	(627)	23,651	(2,537)
Fund Balances - Beginning of fiscal year	907,314	16,045	23,247	9,162
Fund Balances - End of fiscal year	\$ 928,490	\$ 15,418	\$ 46,899	\$ 6,625

TRANSPORTATION RELATED TRUST FUNDS	COMBINED RECREATION BOND FUND	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 6,133
263,272	-	-	2,000	1,170,384
-	-	-	-	20,566
-	-	-	-	4,066
-	-	-	-	18,166
1,465	-	46	-	82,303
<u>264,737</u>	<u>-</u>	<u>46</u>	<u>2,000</u>	<u>1,301,618</u>
-	-	102,371	1	102,372
-	55	-	-	55
264,737	-	-	-	1,029,917
-	-	11,003	2,000	878,550
-	-	-	-	605
<u>264,737</u>	<u>55</u>	<u>113,374</u>	<u>2,001</u>	<u>2,011,498</u>
-	(54)	(113,328)	(1)	(709,880)
-	-	89,955	-	89,955
-	-	18,727	-	18,750
-	-	-	-	898
-	-	-	-	501
-	-	62	28,404	920,074
-	-	(28,880)	-	(283,749)
-	-	79,864	28,404	746,429
-	(54)	(33,464)	28,403	36,549
-	82	(28,442)	(28,509)	898,898
<u>\$ -</u>	<u>\$ 28</u>	<u>\$ (61,906)</u>	<u>\$ (106)</u>	<u>\$ 935,447</u>



PERMANENT FUNDS

MICHIGAN NATURAL RESOURCES TRUST FUND

Article 9, Section 35, of the State Constitution created the Michigan Natural Resources Trust Fund (MNRTF). The fund, established in 1985, operates under Sections 324.1901 - 324.1908 of the Michigan Compiled Laws. The State Treasurer directs fund investments, which include fixed income and equity investments.

In May of 2011, the MNRTF reached the constitutional limit of \$500 million on the investment corpus. As a result, the MNRTF no longer receives revenue generated from oil and gas bonuses, rentals, and royalties from State-owned land. Constitutionally, these revenue sources are now deposited into the Michigan State Parks Endowment Fund.

Constitutional provisions limit all future MNRTF appropriations to investment and other miscellaneous income of the fund. Appropriations are used to fund grants to local units of government as well as State agencies to acquire land or develop public recreation facilities and to fund payments in lieu of property taxes on State lands acquired by the fund.

MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, the Michigan State Parks Endowment Fund (MSPEF) is governed by the provisions of Michigan Compiled Laws Section 324.74119 to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments.

The fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. Currently all revenues previously attributable to the Michigan Natural Resources Trust Fund from oil and gas bonuses, rentals, and royalties from State-owned land are deposited in the MSPEF until its accumulated principal is capped at \$800 million.

The legislature is limited to appropriating no more than 50 percent of revenues from oil and gas bonuses, rentals, and royalties from State-owned land plus interest and earnings and any private contributions or other revenue to the endowment fund. When the endowment fund's principal balance reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit, annually adjusted for inflation, may be expended.

MICHIGAN VETERANS' TRUST FUND

Article 9, Section 37 of the State Constitution created this fund to finance programs to assist veterans and their beneficiaries. A seven-member board of trustees governs the fund. Resources are provided by investment and common cash earnings. Expenditures and transfers out reflect grants to veterans and their widows or dependents, and administrative costs at both the State and local level. The fund is administered within the Department of Military and Veterans Affairs.

COMBINING BALANCE SHEET
PERMANENT FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
ASSETS				
Current Assets:				
Equity in common cash	\$ 35,483	\$ 10,557	\$ 2,943	\$ 48,982
Amounts due from local units	-	-	195	195
Other current assets	7,439	2,927	173	10,539
Total Current Assets	42,922	13,483	3,311	59,716
Investments	674,735	272,796	52,469	1,000,000
Total Assets	\$ 717,657	\$ 286,280	\$ 55,780	\$ 1,059,716
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 241	\$ 36	\$ 2	\$ 279
Accounts payable and other liabilities	9,279	5,190	29	14,498
Amounts due to other funds	9	238	8	255
Total Current Liabilities	9,528	5,465	39	15,032
Total Liabilities	9,528	5,465	39	15,032
FUND BALANCES				
Nonspendable	500,000	240,742	50,000	790,742
Restricted	208,129	40,073	5,740	253,942
Total Fund Balances	708,129	280,815	55,740	1,044,685
Total Liabilities and Fund Balances	\$ 717,657	\$ 286,280	\$ 55,780	\$ 1,059,716

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

PERMANENT FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
REVENUES				
Miscellaneous	\$ 56,831	\$ 46,737	\$ 4,344	\$ 107,911
Total Revenues	56,831	46,737	4,344	107,911
EXPENDITURES				
Current:				
General government	2,810	387	63	3,260
Public safety and corrections	-	-	1,891	1,891
Conservation, environment, recreation, and agriculture	10,248	21,651	-	31,899
Capital outlay	11,004	3,904	-	14,907
Total Expenditures	24,062	25,942	1,954	51,957
Excess of Revenues over (under) Expenditures	32,769	20,795	2,390	55,954
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	67	-	-	67
Transfers to other funds	(19)	(259)	(8)	(286)
Total Other Financing Sources (Uses)	48	(259)	(8)	(219)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	32,818	20,536	2,382	55,735
Fund Balances - Beginning of fiscal year	675,312	260,279	53,359	988,949
Fund Balances - End of fiscal year	\$ 708,129	\$ 280,815	\$ 55,740	\$ 1,044,685



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Michigan Compiled Laws (MCL) Section 432.41 established the State Lottery Fund and MCL Section 432.5 created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Technology, Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1991. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net position balance represents the unrealized cumulative gain or loss on investments, the change in net other postemployment benefits obligation, capital assets (leasehold improvements and equipment), and the change in net pension liability and deferred inflows and outflows related to pensions. These are required by Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, GASB Statement No 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27

In general, revenues and related expenses are recognized in the period during which the related drawings are held. Because draw games may be played on an advance wager basis, an associated liability is recognized for all wagers received for drawings to be conducted after the end of the reporting period. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Unemployment Insurance Agency: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund. Executive Order 2014-12, established the Department of Talent and Economic Development (TED) and transferred the Unemployment Insurance Agency from the Department of Licensing and Regulatory Affairs to TED.

The Michigan Employment Security Act Contingent Fund was created by Michigan Compiled Laws (MCL) Section 421.10 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on unemployment insurance benefit overpayments and late contributions. MCL Section 421.10 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

A portion of the asset "Amounts due from other funds" and the liability "Amounts due to other funds" represent receivables and payables between the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund.

STATEMENT OF NET POSITION
MAJOR PROPRIETARY FUNDS
SEPTEMBER 30, 2016
(In Thousands)

	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 2	\$ 15,076	\$ 15,078
Equity in common cash (Note 5)	4,319	159,917	164,236
Amounts due from other funds	-	2,490	2,490
Amounts due from component units	-	333	333
Amounts due from federal agencies	-	1,470	1,470
Amounts due from local units	-	29,046	29,046
Inventories	15,740	-	15,740
Investments	21,678	3,142,980	3,164,658
Other current assets	116,760	224,604	341,364
Total Current Assets	158,498	3,575,918	3,734,417
Noncurrent Assets:			
Investments	191,748	-	191,748
Capital Assets:			
Buildings and equipment	5,896	-	5,896
Allowance for depreciation	(4,672)	-	(4,672)
Total capital assets	1,224	-	1,224
Other noncurrent assets	-	29,200	29,200
Total Noncurrent Assets	192,972	29,200	222,172
Total Assets	\$ 351,470	\$ 3,605,118	\$ 3,956,588
DEFERRED OUTFLOWS OF RESOURCES	\$ 3,340	\$ -	\$ 3,340
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 660	\$ -	\$ 660
Accounts payable and other liabilities	106,006	36,697	142,704
Amounts due to other funds	34,350	3,898	38,249
Current portion of other long-term obligations	890	-	890
Total Current Liabilities	141,907	40,595	182,502
Long-Term Liabilities:			
Prize awards payable	171,668	-	171,668
Noncurrent portion of other long-term obligations	32,494	46,440	78,935
Total Long-Term Liabilities	204,162	46,440	250,602
Total Liabilities	\$ 346,069	\$ 87,036	\$ 433,105
DEFERRED INFLOWS OF RESOURCES	\$ 1	\$ -	\$ 1
NET POSITION			
Net investment in capital assets	\$ 1,224	\$ -	\$ 1,224
Restricted For:			
Unemployment compensation	-	3,518,082	3,518,082
Other purposes	8,740	-	8,740
Unrestricted	(1,224)	-	(1,224)
Total Net Position	\$ 8,740	\$ 3,518,082	\$ 3,526,823

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

MAJOR PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	TOTALS
OPERATING REVENUES			
Operating revenues	\$ 3,118,137	\$ 1,383,410	\$ 4,501,547
Total Operating Revenues	3,118,137	1,383,410	4,501,547
OPERATING EXPENSES			
Salaries, wages, and other administrative	365,754	11	365,766
Interest expense	1	-	1
Depreciation	411	-	411
Lottery prize awards	1,856,342	-	1,856,342
Unemployment benefits	-	908,394	908,394
Other operating expenses	-	5,675	5,675
Total Operating Expenses	2,222,509	914,081	3,136,590
Operating Income (Loss)	895,628	469,329	1,364,957
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	283	452	735
Investment revenue (expense) - net	13,518	64,335	77,854
Other nonoperating revenues	-	71	-
Amortization of prize award obligation discount	(7,481)	-	(7,481)
Other nonoperating expense	(4)	-	(4)
Total Nonoperating Revenues (Expenses)	6,316	64,858	71,174
Income (Loss) Before Transfers	901,943	534,188	1,436,131
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers To:			
School Aid Fund	(888,907)	-	(888,907)
Other funds	(6,992)	(12,345)	(19,338)
Total transfers to other funds	(895,899)	(12,345)	(908,245)
Change in net position	6,044	521,842	527,887
Total net position - Beginning of fiscal year - restated	2,696	2,996,240	2,998,936
Total net position - End of fiscal year	\$ 8,740	\$ 3,518,082	\$ 3,526,823

The accompanying notes are an integral part of the financial statements.



ENTERPRISE FUNDS

ATTORNEY DISCIPLINE SYSTEM

The Attorney Discipline System (ADS) consists of the Attorney Grievance Commission and the Attorney Discipline Board. This system provides the courts, legal profession, and the general public with a means to ensure that complaints against attorneys for potential violations of the Court Rules and the Michigan Rules of Professional Conduct are properly heard and investigated, and that sanctions are imposed where required. ADS is under the supervision of the Michigan Supreme Court which also approves the two agencies' budgets.

ADS receives revenue in the form of mandatory annual assessments on members of the State Bar of Michigan, provided for by Court Rules. This system also receives other revenue, primarily through the assessment of administrative fees and the recovery of costs, including subpoena fees and transcript costs.

LIQUOR PURCHASE REVOLVING FUND

Michigan Compiled Laws (MCL) Section 436.1221 authorized the Liquor Control Commission, within the Department of Licensing and Regulatory Affairs, to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the State Treasurer. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each fiscal year, the net income of the fund is transferred to the General Fund in accordance with MCL Section 18.1435.

COMBINING STATEMENT OF NET POSITION
ENTERPRISE FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 878	\$ -	\$ 879
Equity in common cash	-	80,479	80,479
Inventories	-	5,694	5,694
Investments	3,500	-	3,500
Other current assets	179	14,028	14,207
Total Current Assets	<u>4,558</u>	<u>100,202</u>	<u>104,759</u>
Capital Assets:			
Buildings and equipment	571	-	571
Allowance for depreciation	(538)	-	(538)
Total capital assets	<u>33</u>	<u>-</u>	<u>33</u>
Other noncurrent assets	<u>126</u>	<u>-</u>	<u>126</u>
Total Assets	<u>\$ 4,717</u>	<u>\$ 100,202</u>	<u>\$ 104,919</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 125</u>	<u>\$ 2,097</u>	<u>\$ 2,222</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 1,168	\$ 1,168
Accounts payable and other liabilities	390	98,291	98,681
Amounts due to other funds	-	206	206
Unearned revenue	524	-	524
Current portion of other long-term obligations	-	639	639
Total Current Liabilities	<u>914</u>	<u>100,304</u>	<u>101,218</u>
Long-Term Liabilities:			
Noncurrent portion of other long-term obligations	<u>898</u>	<u>22,715</u>	<u>23,612</u>
Total Liabilities	<u>\$ 1,812</u>	<u>\$ 123,019</u>	<u>\$ 124,831</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 46</u>	<u>\$ 135</u>	<u>\$ 180</u>
NET POSITION			
Net investment in capital assets	\$ 33	\$ -	\$ 33
Unrestricted	<u>2,952</u>	<u>(20,855)</u>	<u>(17,903)</u>
Total Net Position	<u>\$ 2,985</u>	<u>\$ (20,855)</u>	<u>\$ (17,870)</u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
OPERATING REVENUES			
Operating revenues	\$ 4,045	\$ 1,082,256	\$ 1,086,301
Total Operating Revenues	4,045	1,082,256	1,086,301
OPERATING EXPENSES			
Salaries, wages, and other administrative	5,007	81,601	86,608
Depreciation	12	-	12
Purchases for resale	-	790,348	790,348
Premiums and claims	-	4	4
Other operating expenses	-	818	818
Total Operating Expenses	5,019	872,771	877,790
Operating Income (Loss)	(974)	209,485	208,510
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	21	402	423
Other nonoperating expense	-	(131)	(131)
Total Nonoperating Revenues (Expenses)	21	271	292
Income (Loss) Before Transfers	(953)	209,756	208,803
TRANSFERS			
Transfers to other funds	-	(209,756)	(209,756)
Change in net position	(953)	-	(953)
Total net position - Beginning of fiscal year - restated	3,938	(20,855)	(16,916)
Total net position - End of fiscal year	\$ 2,985	\$ (20,855)	\$ (17,870)



INTERNAL SERVICE FUNDS

CORRECTIONAL INDUSTRIES REVOLVING FUND

Authorized by Michigan Compiled Laws (MCL) Section 800.325, this fund accounts for the financial transactions of a manufacturing and processing industry, employing inmates incarcerated in Michigan's correctional institutions. MCL Section 800.326 expanded the fund's sales market to include institutions of this or any other state or political subdivision thereof, the federal government or its agencies, a foreign government or agencies of a foreign government, a private vendor that operates the youth correctional facility, and certain tax-exempt organizations.

Executive Order 1992-13 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively. The minimum required payment was made in fiscal year 2016.

STATE SPONSORED GROUP INSURANCE FUND

This fund was administratively established to reflect the financial transactions of the State sponsored insurance plans that provide health, long-term disability, life, vision, and dental coverage for participating employees. The plans' funding methods range from those where the State is fully self-insured to those where an outside carrier assumes partial risk on a contracted basis. A note to the financial statements entitled "Risk Management" provides additional information about this fund.

The amounts reflected as amounts due from other funds include reclassifications of other funds' negative balances in the common cash pool.

INFORMATION TECHNOLOGY FUND

This fund was created by administrative decision to provide telecommunication and information technology services for State agencies. User agencies are billed for the cost of such services. During fiscal year 2002, the use of this fund was expanded to account for all information technology activities of the executive branch as prescribed in Executive Order 2001-03.

OFFICE SERVICES REVOLVING FUND

Created in 1952, this fund operates under Michigan Compiled Laws Section 18.1269 to provide services in the following areas: printing, reproduction, microfilm, mailing, distribution of federal and state surplus property, and materials management. The cost of the services or supplies is charged to user departments and agencies. Resultant revenue is credited to the revolving fund and is used for administration and operation of the program, including purchase of necessary equipment. During fiscal year 2002, the use of the fund was expanded to account for the purchase of bulk gas used by State agencies.

MOTOR TRANSPORT FUND

This fund was created by Michigan Compiled Laws Section 18.1213 to provide vehicle and travel services for State agencies. Activities include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short-term usage and are furnished to agencies at a rate sufficient to cover all costs of operation and maintenance. Agencies are billed on a monthly basis for services rendered.

RISK MANAGEMENT FUND

Administratively established, this fund accounts for certain centralized risk management functions performed by the Department of Technology, Management and Budget for other State agencies. Currently, the fund has assumed a degree of risk for the automotive liability. This activity and administrative functions are recorded as operating activity of the fund. An activity of the fund for which the fund assumes no risk is the centralized processing of workers' compensation payments for State agencies. Workers' compensation long-term claim liabilities are recorded in the Government-wide Financial Statements and the related current year workers' compensation expenditures are recorded in the applicable funds.

COMBINING STATEMENT OF NET POSITION

INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2016

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ -	\$ 321,270	\$ 222
Amounts due from other funds	-	6,583	-
Amounts due from component units	-	39	-
Inventories	6,060	-	193
Other current assets	354	5,458	20,807
Total Current Assets	6,414	333,351	21,222
Capital Assets:			
Land and other non-depreciable assets	-	-	9,170
Buildings and equipment	23,628	-	1,367,065
Allowance for depreciation	(13,932)	-	(726,730)
Total capital assets	9,695	-	649,504
Other noncurrent assets	-	700	-
Total Assets	\$ 16,109	\$ 334,051	\$ 670,726
DEFERRED OUTFLOWS OF RESOURCES	\$ 907	\$ -	\$ 37,580
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 6	\$ 7	\$ 572
Accounts payable and other liabilities	340	21,680	89,309
Amounts due to other funds	2,157	-	3,650
Amounts due to component units	-	-	25
Interest payable	2,150	-	-
Unearned revenue	-	112	43,897
Current portion of other long-term obligations	433	36,709	29,336
Total Current Liabilities	5,087	58,508	166,788
Long-Term Liabilities:			
Advances from other funds	1,926	-	-
Unearned revenue	-	-	349,064
Noncurrent portion of other long-term obligations	9,546	93,602	457,364
Total Liabilities	\$ 16,559	\$ 152,109	\$ 973,217
DEFERRED INFLOWS OF RESOURCES	\$ 850	\$ -	\$ 8
NET POSITION			
Net investment in capital assets	\$ 12,745	\$ -	\$ 520,088
Restricted for other purposes	-	-	-
Unrestricted	(13,138)	181,942	(785,007)
Total Net Position	\$ (393)	\$ 181,942	\$ (264,919)

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 15,227	\$ 7,280	\$ 12,971	\$ 356,971
-	2,065	-	8,648
-	-	-	39
2,973	346	-	9,572
3,683	1,700	1,500	33,503
<u>21,883</u>	<u>11,390</u>	<u>14,471</u>	<u>408,732</u>
-	-	-	9,170
15,874	8,895	-	1,415,461
(12,373)	(8,792)	-	(761,828)
<u>3,500</u>	<u>103</u>	<u>-</u>	<u>662,802</u>
-	-	50	750
<u>\$ 25,384</u>	<u>\$ 11,493</u>	<u>\$ 14,521</u>	<u>\$ 1,072,284</u>
<u>\$ 1,921</u>	<u>\$ 584</u>	<u>\$ 144</u>	<u>\$ 41,136</u>
\$ 4	\$ 2	\$ -	\$ 591
5,945	225	612	118,112
196	53	11	6,067
-	-	-	25
-	-	-	2,150
18	-	-	44,026
572	153	3,051	70,254
<u>6,735</u>	<u>433</u>	<u>3,674</u>	<u>241,225</u>
-	-	-	1,926
-	-	-	349,064
<u>19,578</u>	<u>5,205</u>	<u>5,532</u>	<u>590,828</u>
<u>\$ 26,313</u>	<u>\$ 5,639</u>	<u>\$ 9,206</u>	<u>\$ 1,183,043</u>
<u>\$ 98</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 956</u>
\$ 3,500	\$ 103	\$ -	\$ 536,436
-	7,755	-	7,755
(2,606)	(1,419)	5,459	(614,770)
<u>\$ 894</u>	<u>\$ 6,439</u>	<u>\$ 5,459</u>	<u>\$ (70,578)</u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

INTERNAL SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
OPERATING REVENUES			
Operating revenues	\$ 17,560	\$ 739,065	\$ 727,509
Total Operating Revenues	17,560	739,065	727,509
OPERATING EXPENSES			
Salaries, wages, and other administrative	6,387	20,514	660,122
Depreciation	635	-	73,705
Purchases for resale	-	-	-
Purchases for prison industries	6,244	-	-
Premiums and claims	-	703,586	1
Other operating expenses:	-	-	-
Leased vehicles expense	-	-	-
Vehicle maintenance expense	-	-	11
Total other operating expenses	-	-	11
Total Operating Expenses	13,266	724,100	733,838
Operating Income (Loss)	4,294	14,964	(6,329)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	-	946	-
Other nonoperating revenues	-	-	1,359
Interest expense	(16)	-	(352)
Other nonoperating expense	(1)	-	(3)
Total Nonoperating Revenues (Expenses)	(17)	946	1,004
Income (Loss) Before Transfers	4,277	15,910	(5,325)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers to other funds	(119)	-	(7,179)
Total Transfers In (Out)	(119)	-	(7,179)
Change in net position	4,158	15,910	(12,504)
Total net position - Beginning of fiscal year - restated	(4,551)	166,032	(252,415)
Total net position - End of fiscal year	\$ (393)	\$ 181,942	\$ (264,919)

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 95,754	\$ 66,651	\$ 4,942	\$ 1,651,480
95,754	66,651	4,942	1,651,480
28,678	6,476	3,293	725,471
1,273	10	-	75,622
60,495	-	-	60,495
-	-	-	6,244
1	2,036	322	705,946
-	-	-	-
-	30,846	-	30,846
-	24,955	-	24,966
-	55,801	-	55,812
90,447	64,324	3,615	1,629,591
5,306	2,327	1,327	21,890
-	-	-	946
-	31	-	1,390
-	-	-	(368)
(2)	-	-	(6)
(2)	31	-	1,961
5,304	2,358	1,327	23,851
(204)	(68)	(31)	(7,600)
(204)	(68)	(31)	(7,600)
5,100	2,290	1,296	16,251
(4,206)	4,148	4,163	(86,829)
\$ 894	\$ 6,439	\$ 5,459	\$ (70,578)

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Michigan
Notes to the Preliminary Unaudited Financial Statements

NOTE 1 – REPORTING ENTITY

These unaudited financial statements and notes, required by Section 18.1493 of the Michigan Compiled Laws, report the financial position and results of operations of the State of Michigan's Governmental Funds, including the General Fund and School Aid Fund, and Proprietary Funds for the fiscal year ended September 30, 2016. These funds will be included in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, which has not yet been issued.

The final amounts shown in the audited SOMCAFR may differ from the amounts shown in these unaudited financial statements and notes due to final adjustments, audit results, and/or subsequent events. While the extent of the adjustments that may be made for the SOMCAFR cannot be accurately projected at this time, these statements were prepared using the best information currently available.

These footnotes relate directly to the Governmental and Proprietary Funds and do not include all disclosures required by generally accepted accounting principles (GAAP). All disclosures required by GAAP will be included in the SOMCAFR.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Measurement Focus, Basis of Accounting, and Financial Statement Presentation*****Measurement Focus and Basis of Accounting**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Significant revenues susceptible to accrual include tax revenues and federal grants. Revenues that the State earns by incurring obligations are recognized in the period when all applicable eligibility requirements have been met.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Financial Statement Presentation

This report includes the following major governmental funds:

The General Fund is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The School Aid Fund's purpose is to aid in the support of the public schools and the intermediate school districts. The fund receives State revenues restricted to local school programs, including the state education (property) tax, portions of the sales and personal income taxes, and State Lottery Fund earnings.

This report also includes the following major proprietary funds:

The State Lottery Fund accounts for the operations of the State's lottery, bingo, and charitable game operations.

The Michigan Unemployment Compensation Funds receive contributions from employers and provide benefits to eligible unemployed workers.

Additionally, the following fund types are reported:

Governmental Fund Types:

Special Revenue Funds – account for specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds – account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds – account for resources used for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude capital-related outflows financed by proprietary or trust funds.

Michigan Notes to the Preliminary Unaudited Financial Statements

Permanent Funds – report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry.

Proprietary Fund Types:

Enterprise Funds – report the activities for which fees are charged to external users for goods or services, such as the State's liquor sales. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

Internal Service Funds – provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include prisoner-built office furnishings; motor pool services; printing, reproduction and mailing services; information technology; risk management; and health-related fringe benefits. In the government-wide financial statements, internal service funds are included with governmental activities.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Cash

Cash reported on the Statement of Net Position and the Balance Sheet consists of petty cash, undeposited receipts, deposits in transit to the Common Cash pool, and cash equivalents such as short-term investments with original maturities of less than three months that are used for cash management, rather than investing activities.

Equity in Common Cash

The State Treasurer maintains centralized management of most State cash resources. From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the Common Cash pool are described in Note 5.

Taxes Receivable

Taxes receivable represent amounts due to the State at September 30, which will be collected sometime in the future. In the governmental fund financial statements, the portion considered "available" (i.e., received by the State within approximately 60 days after year-end) is recorded as revenue; the remainder is recorded as deferred inflows of resources. Application of the measurability and availability criteria regarding taxes is described in Note 6.

Amounts Due From Federal Agencies

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs financed entirely by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment, which is generally limited to certain programs within the Department of Education, understates both assets and liabilities, and expenditures and revenues; however, there is no impact on net position or fund balance.

Inventories

Inventories are valued at cost, primarily using the first-in, first-out flow method. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

Investments

Generally, investments are reported at fair value. Short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury obligations are reported at amortized cost.

Other Assets

Other assets include receivables, amounts held in escrow, and other types of assets not reported on other lines.

Capital Assets

Capital assets, which include land, buildings, equipment, intangibles, and infrastructure assets (i.e., roads, bridges, ramps, and similar items), are reported in the applicable proprietary fund financial statements. Capital assets are reported at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated.

Interest incurred during construction is only capitalized in proprietary funds. Most capital assets are depreciated over their useful lives, using the straight-line depreciation method.

Deferred Outflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period; they increase net position, similar to assets.

Michigan
Notes to the Preliminary Unaudited Financial Statements

Warrants Outstanding

Warrants outstanding represent drafts issued against the State Treasurer's Common Cash pool, which have not yet cleared. These are similar to outstanding checks; however, the issuing funds' balances in the pool are not reduced until warrants are redeemed.

Income Tax Refunds Payable

The amount of collected or accrued personal income tax revenues that will be refunded is estimated and accrued as a General Fund liability. Note 7 more fully describes this liability.

Prize Awards Payable

The State Lottery Fund makes long-term prize awards for certain games, most notable the lotto games. At September 30, 2016, long-term prize awards of \$255.1 million were reported at a present value of \$171.7 million, using discount rates ranging from 3.4 to 7.0 percent.

Non-installment prize awards and the portion of long-term awards payable during the next fiscal year, totaling \$87.7 million, are included with "Accounts payable and other liabilities" on the Statement of Net Position.

Unearned Revenue

Unearned revenue is recognized when cash, receivables, or other assets are received prior to their being earned.

Long-Term Liabilities

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Compensated Absences

In the proprietary fund financial statements, compensated absences are reported as liabilities.

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 296 to 356 hours. The maximum accumulation that may be paid off is 40 hours less than the total hours that may be accumulated. Employees receive a 100 percent termination payment upon separation based upon their final rate of pay. The liability for annual leave is recorded at the maximum accumulation amounts in accordance with generally accepted accounting principles, as it is probable that the State will compensate employees through paid time off, for the hours earned in excess of the total that may be paid off. The liability for annual leave is valued at 100 percent of the balance plus the State's share of social security and retirement contributions.

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50 percent of the employee's sick leave accumulation, times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0 to 50 percent, depending upon the balance of their sick leave hours. Sick leave is valued at 0 to 50 percent plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2016.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The banked leave time program was utilized in fiscal years 2005, 2006, and 2010. The unpaid hours worked accrue to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401k plans, and if applicable, to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2016.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end.

Deferred Inflows of Resources

Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future period; they decrease net position, similar to liabilities.

Net Position/Fund Balance

The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources is "Net Position" on the proprietary fund financial statements, and "Fund Balance" on the governmental fund financial statements.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form, such as inventories, prepaids, and long-term receivables, or legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that are restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law.

Assigned fund balance includes amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of fund balance are created by the executive branch when criteria established by the State Budget Office are met. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the General Fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance also includes negative residual balances in other funds.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the intent is to use committed resources first, then assigned. Unassigned amounts are generally used only after the other resources have been used.

Revenues and Expenditures/Expenses

In the governmental fund financial statements, revenues are reported by sources. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (i.e., federal grants), available only for specified purposes. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental-revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Tax expenditures, which represent income tax credit programs that are in substance grants, are also reported as current expenditures. These are described in more detail in Note 7.

Capital outlay includes expenditures for capital assets. Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (i.e., salaries, depreciation, and purchases for resale). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources

These additions to governmental fund balances include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

Reimbursements

Reimbursements result when a fund originally making a disbursement receives resources from another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds are appropriated in the General Fund.

Interfund Services Provided and Used

When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser expenditure or expense, depending upon the fund type.

Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

Michigan
Notes to the Preliminary Unaudited Financial Statements

Other Financing Uses

These reductions of governmental fund resources normally result from transfers to other funds.

Interfund Activity

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. An example is gas taxes collected by the Department of Transportation but expended by the Department of Natural Resources.

NOTE 3 – FUNDS BY CLASSIFICATION

The following table lists all of the funds whose balances are reflected in this financial report.

Operating funds which are subject to annual appropriation are identified by an “*”. For each fund, the page number of the first financial statement for that fund is shown in parenthesis.

PRIMARY GOVERNMENT:**MAJOR FUNDS****Governmental:**

General Fund* (p. 8)
 School Aid Fund* (p. 8)

Proprietary:

State Lottery Fund (p. 50)
 Michigan Unemployment Compensation Funds (p. 50)

NON-MAJOR FUNDS**Governmental:****Special Revenue Funds:****Transportation Related:**

Michigan Transportation Fund* (p. 12)
 Comprehensive Transportation Fund* (p. 12)

Conservation, Environment, and Recreation Related:

Michigan Conservation and Recreation Legacy Fund* (p. 16)
 Michigan Game and Fish Protection Trust Fund (p. 16)
 Michigan Nongame Fish and Wildlife Trust Fund* (p. 17)
 Forest Development Fund* (p. 17)
 Bottle Deposits Fund (p. 17)

Regulatory and Administrative Related:

Homeowner Construction Lien Recovery Fund* (p. 22)
 Michigan Employment Security Act – Administration Fund* (p. 22)
 Safety Education and Training Fund* (p. 22)
 Second Injury Fund (p. 22)
 Self-Insurers’ Security Fund (p. 22)
 Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 23)
 State Construction Code Fund* (p. 23)
 Utility Consumer Representation Fund (p. 23)
 Unemployment Obligation Trust Fund (p. 23)
 State Casino Gaming Fund* (p. 23)

Other State Funds:

21st Century Jobs Trust Fund* (p. 28)
 Michigan Merit Award Trust Fund* (p. 28)
 Children’s Trust Fund* (p. 28)
 Military Family Relief Fund* (p. 29)
 Miscellaneous Special Revenue Funds (p. 29)

Debt Service Funds:

Combined State Trunkline Bond and Interest Redemption Fund (p. 34)
 Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 34)
 Recreation and Environmental Protection Bond Redemption Fund (p. 34)
 School Loan Bond Redemption Fund (p. 35)
 State Building Authority (p. 35)

Capital Project Funds:

State Trunkline Fund* (p. 40)
 State Aeronautics Fund* (p. 40)
 Combined State Trunkline Bond Proceeds Fund (p. 40)
 Combined Comprehensive Transportation Bond Proceeds Fund (p. 40)
 Transportation Related Trust Funds (p. 41)
 Combined Recreation Bond Fund (p. 41)
 State Building Authority (p. 41)
 Advance Financing Funds (p. 41)

Permanent Funds:

Michigan Natural Resources Trust Fund* (p. 46)
 Michigan State Parks Endowment Fund* (p. 46)
 Michigan Veterans’ Trust Fund* (p. 46)

Michigan Notes to the Preliminary Unaudited Financial Statements

Proprietary:

Enterprise Funds:

Attorney Discipline System (p. 54)
Liquor Purchase Revolving Fund (p. 54)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 58)
State Sponsored Group Insurance Fund (p. 58)
Information Technology Fund (p. 58)
Office Services Revolving Fund (p. 59)
Motor Transport Fund (p. 59)
Risk Management Fund (p. 59)

NOTE 4 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Major Constitutional and Statutory Provisions

Balanced Budget Requirements

Article 5 of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the executive budget and budget bills for each fiscal year.

Article 4 of the State Constitution mandates the Legislature to enact appropriations for each operating fund that do not exceed that fund's revenue estimates, including beginning fund balance.

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

Local Spending Requirements

Article 9, Section 30, of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1993, is 48.97 percent.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2016 are not yet complete. For fiscal year 2015, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 55.25 percent, reflecting payments that exceeded the minimum required by \$1.9 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2016.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1979, in relation to calendar year 1977 personal income, is 9.49 percent. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1.0 percent or more, the amount in excess must be refunded to personal income tax payers and payers of the State's Corporate Income Tax. If the limit is exceeded by an amount less than 1.0 percent, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2016 are not final. For fiscal year 2015, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$7.4 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2016.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund" or "Rainy Day Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under Sections 18.1351 - 18.1359 of the Michigan Compiled Laws, as amended. In general, the law requires payments into the fund when real economic growth exceeds 2.0 percent and allows withdrawals from the fund when real economic growth is less than 0.0 percent. Funds can also be withdrawn when the State's unemployment rate exceeds 8.0 percent or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature. The Counter-Cyclical Budget and Economic Stabilization Fund is accounted for as a subfund of the General Fund where its fund balance is committed.

The following table summarizes the transactions for the fund for fiscal year 2016 (in millions):

Beginning committed fund balance	\$ 498.1
Interest income	1.7
Tobacco Settlement proceeds	17.5
Deposits	95.0
Withdrawals	-
Ending committed fund balance	<u>\$ 612.4</u>

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During fiscal year 2014, \$194.8 million was transferred to the Michigan Settlement Administration Authority to support the Detroit bankruptcy settlement. That withdrawal will be repaid to the fund in the amount of \$17.5 million annually from tobacco settlement funds, beginning in fiscal year 2015.

School Aid Fund Budgetary Provisions

The School Aid Stabilization Fund is a separate account within the School Aid Fund created under Section 388.1611a of the Michigan Compiled Laws. Any unexpended or unencumbered state school aid fund revenue is deposited into this fund at the end of each fiscal year. The amounts accumulated in this fund are carried forward and shall be expended only for purposes for which state school aid money may be expended. The School Aid Stabilization Fund ending restricted fund balance is \$168.2 million for fiscal year 2016.

NOTE 5 – TREASURER’S COMMON CASH

General Accounting Policies

The State Treasurer (Treasurer) manages the State's Common Cash pool, which is used by most state funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool, and presented in this report as "Equity in common cash." Many funds use their equity in the pool as a short-term investment vehicle.

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Statute or administrative policy determines whether a particular fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. The Treasurer has placed a "cap," or limit, on the amount of interest that can be earned by some State funds. These "capped" funds are limited to a maximum rate determined by the Treasurer. For the remaining "uncapped" funds, earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds' equity in the pool.

Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/expenses of each of the participating funds.

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent amounts due to the State at September 30, 2016, for revenues earned during the fiscal year that will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectibles.

Sales, use, Michigan business, and income taxes are accrued to the extent that the related sales, wage, or activity being taxed occurred prior to October 1. Property taxes are accrued if the levy date occurred prior to October 1.

Local units of government, as agents for the State, assess the State education tax, which is a statewide property tax. The State education tax is levied on July 1 and is due and payable at the same time as local unit taxes levied on July 1. The State accrues State education tax revenue received by the State or the local units, on its behalf, during October and November. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time.

In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting for amounts due to the State at September 30 (as stated above), that are considered "available" (e.g. received by the State within approximately 60 days after that date). Delinquent taxes are recognized to the extent that they are collected within 12 months. The remainder is recorded as a deferred inflow of resources.

Effective January 1, 2008, the State replaced the Single Business Tax (SBT) with the Michigan Business Tax (MBT). Effective January 1, 2012, the MBT was replaced by the Corporate Income Tax (CIT). A small number of taxpayers with certificated credits may continue to file under the MBT provisions until their credits expire. Additionally, the Health Insurance Claims Assessment (HICA) was created effective January 1, 2012.

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Taxes receivable as of September 30 consisted of the following (in millions):

<u>Tax</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Sales & use	\$ 419.8	\$ 768.0	\$ 1,187.9
Individual Income	2,560.3	369.3	2,929.6
SBT/MBT/CIT	606.1	-	606.1
State education (property)	-	1,334.5	1,334.5
Telephone & telegraph	14.1	-	14.1
Motor fuel	-	146.9	146.9
Insurance – retaliatory	89.6	-	89.6
Tobacco products	70.7	42.4	113.2
Quality assurance assessment	156.7	-	156.7
Health insurance claims assessment	59.5	-	59.5
Other	25.5	12.1	37.3
Penalties & interest	1,020.5	-	1,020.5
Gross taxes receivable	5,022.6	2,673.3	7,695.9
Less allowances for uncollectibles	2,245.3	474.8	2,720.1
Total taxes receivable (net)	<u>\$ 2,777.4</u>	<u>\$ 2,198.5</u>	<u>\$ 4,975.8</u>
<u>As reported on the Statement of Net Position</u>			
Current taxes, interest, and penalties receivable	\$ 2,564.3	\$ 2,131.7	\$ 4,696.0
Noncurrent taxes interest, and penalties receivable	213.0	66.8	279.8
Total taxes, interest, and penalties receivable	<u>\$ 2,777.4</u>	<u>\$ 2,198.5</u>	<u>\$ 4,975.8</u>

NOTE 7 – INCOME TAX CREDITS AND REFUNDS

Income Tax Credits

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits that are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax is the primary credit that falls into this category. Expenditures for this credit are recognized in the year the tax returns are filed and recipients claim the credit.

The following table summarizes the various credits, reported on the "Tax credits" line as an expenditure in the fund financial statements at September 30 (in millions):

Property tax credits:	
General homestead	\$ 269.2
Senior citizens	192.3
Blind and disabled	54.0
Farmland preservation	44.8
Veterans	0.4
Subtotal – property tax credits	560.7
Earned income tax credit	111.5
Historic preservation credit	0.2
Total tax credits	<u>\$ 672.4</u>

Income Tax Refunds Payable

The \$892.0 million reported as a liability on the "Income tax refunds payable" line in the governmental fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.

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NOTE 8 – FUND DEFICITS**Governmental Funds**

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$0.1 million. The fund deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$61.9 million. The fund deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Proprietary Funds

The Liquor Purchase Revolving Fund, an enterprise fund, had a net position deficit of \$20.9 million. As the result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, the Statement of Net Position now includes a portion of net pension liability related to the State Employees' Retirement System (SERS) that was allocated to the fund in accordance with GASB standards. As the result of clarification of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the Statement of Net Position now also includes Other Postemployment Benefit (OPEB) liability.

The Correctional Industries Revolving Fund, an internal service fund, had a net position deficit of \$0.4 million. As the result of the implementation of GASB Statement No. 68, the Statement of Net Position now includes a portion of net pension liability related to the SERS that was allocated to the fund in accordance with GASB standards. As the result of clarification of GASB Statement No. 45, the Statement of Net Position now also includes an OPEB liability.

The Information Technology Fund, an internal service fund, had a net position deficit of \$264.9 million. As the result of the implementation of GASB Statement No. 68, the Statement of Net Position now includes a portion of net pension liability related to the SERS that was allocated to the fund in accordance with GASB standards. As the result of clarification of GASB Statement No. 45, the Statement of Net Position now also includes an OPEB liability.